



DEAN ANDAL
Member Board of Equalization

Agriculture Alert

KILL THE TRACTOR TAX!

LEGISLATIVE RELIEF IN SIGHT?

You're probably aware that only Hawaii, Nevada, Washington and California fully tax new farm equipment. See map on insert Page 2.

Taxing farm equipment and machinery is a disincentive for farmers to buy in California, which, in turn, harms California equipment dealers and manufacturers. It also makes California agriculture less competitive with other states and sets up farmers for tax obligations years after they purchase equipment from those other states.

What?! Tax on out-of-state purchases?!

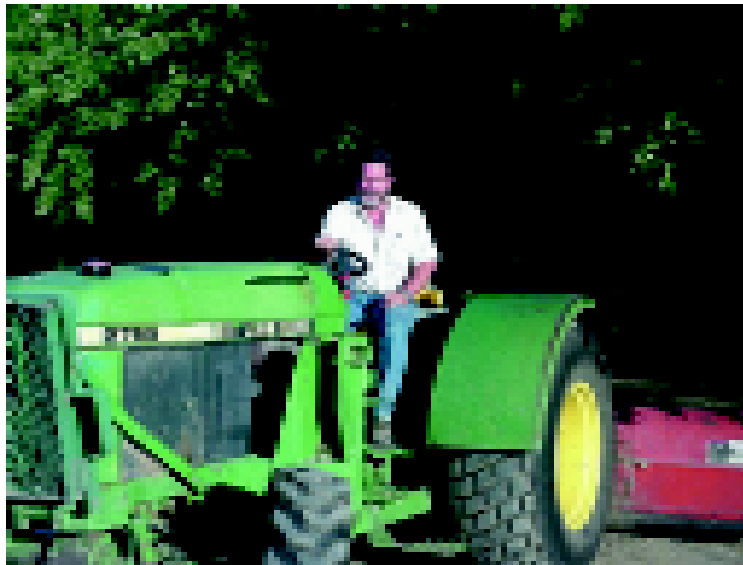
Unfortunately, it's true.

Current law *also* requires tax to be paid on items that are purchased out-of-state and are subsequently brought into California.

In fact, the Board of Equalization has recently gone after 1,200

farmers who have not paid tax on their out-of-state purchases. The

sent demand letters for the tax owed.



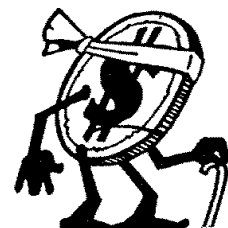
Bob Brocchini, President of Brocchini Farms

Board did this by obtaining warranty records (under threat of subpoena) from two major equipment manufacturers. From these records, they were able to identify individuals who did not self-report use tax on their purchases. The Board then

This has put farmers in a defenseless, no-win situation: you must either make your equipment purchases in California and pay the sales tax, or go to another state that doesn't charge tax and risk the chance of being hit with California use tax (plus interest and penalties!) if the Board of Equalization discovers any of your out-of-state purchases.

But there is good news: a bill pending in the Legislature —

See **TRACTOR**, Page 2



TRACTOR

■ *Continued from Page 1*

Assembly Bill 7 — provides a sales and use tax exemption for farm equipment and machinery used to produce and harvest agricultural products. This proposed exemption is similar to the exemption that has been provided to manufacturers for years.

If passed, Assembly Bill 7 will level the playing field for California farmers, place California equipment dealers on the same footing as those in other states, and provide a long-overdue incentive for a vital segment of our economy that should *at least* be treated the same

as the manufacturing sector. This important legislation is long overdue.

Please write to the Assembly Appropriations Committee Members listed below and urge them to support Assembly Bill 7. Address your letters as follows:

Honorable (Name)

Member Assembly Appropriations Committee

State Capitol – (Room #)

Sacramento, CA 95814

Assembly Appropriations Committee Members

Assemblywoman Carole Migden (Chair), Room 2114

Assemblywoman Patricia Bates (Vice-Chair), Room 6031

Assemblywoman Elaine Alquist, Room 3120

Assemblywoman Dion Aroner, Room 2163

Assemblyman Roy Ashburn, Room 4167

Assemblyman Gil Cedillo, Room 5016

Assemblywoman Ellen Corbett, Room 4126

Assemblyman Lou Correa, Room 6025

Assemblywoman Lynn Daucher, Room 2111

Assemblywoman Jackie Goldberg, Room 5155

Assemblyman Abel Maldonado, Room 4015

Assemblyman Robert Pacheco, Room 4177

Assemblyman Lou Papan, Room 3173

Assemblywoman Fran Pavley, Room 5144

Assemblyman George Runner, Room 6027

Assemblyman Joe Simitian, Room 5119

Assemblywoman Helen Thomson, Room 6005

Assemblyman Herb Wesson, Room 3013

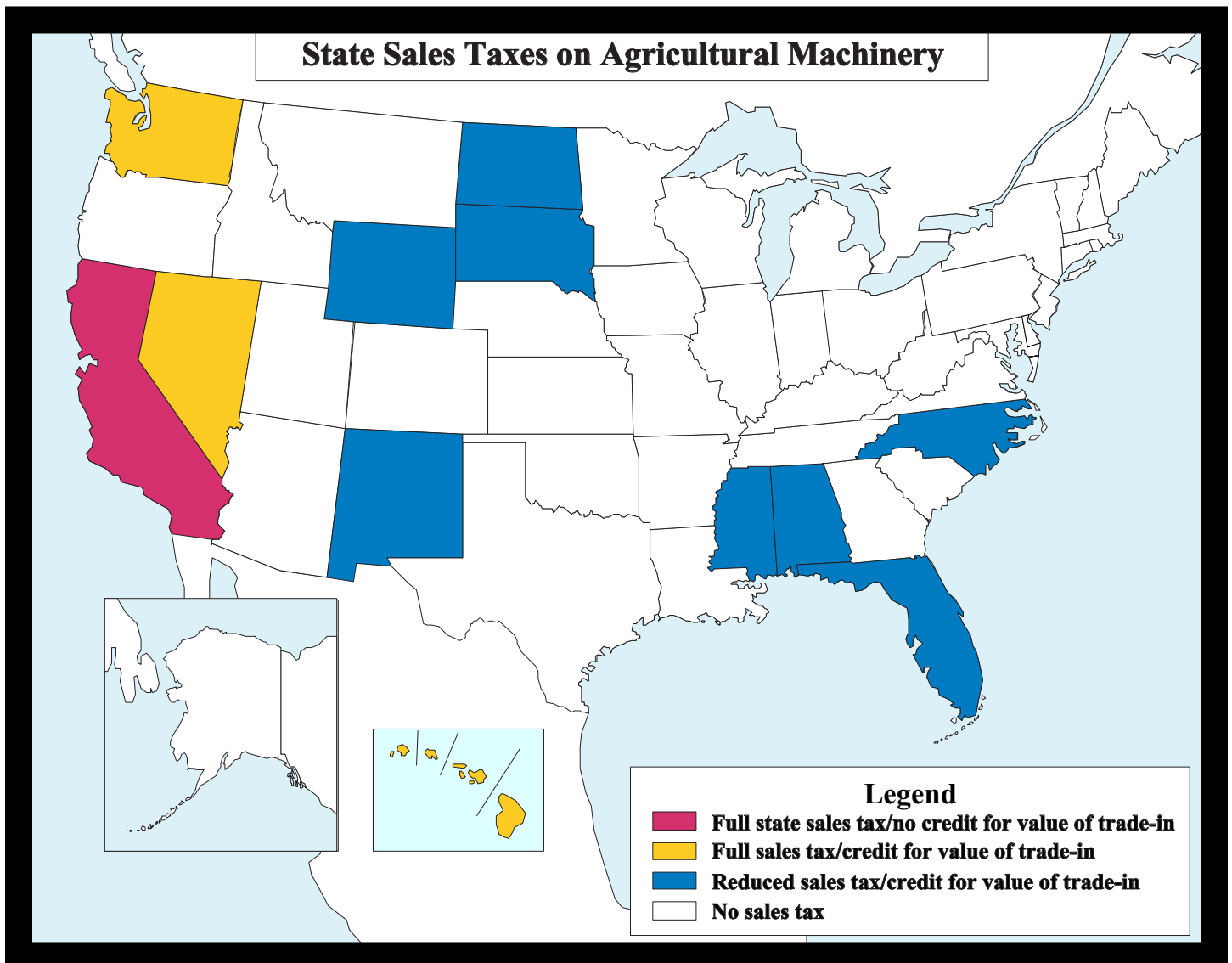
Assemblywoman Patricia Wiggins, Room 4016

Assemblyman Roderick Wright, Room 6012

Assemblywoman Charlene Zettel, Room 5164

State Sales Taxes on Agricultural Machinery

California is one of just a few states that charge tax on farm equipment sales. Approximately seventy-five percent of other states don't impose any tax at all.



SOME ASSESSORS OVER TAXING FARMLAND

How many of you view farming as an investment as safe as government bonds? Apparently, many county tax assessors believe the investment risks are similar for both. Some assessors are valuing agricultural lands covered by contracts under the Williamson Act – also known as the California Land Conservation Act or CLCA – using nearly the same rate of return as long term government treasuries. By using an artificially low rate of return (or “capitalization rate”), assessors have inflated values for restricted agricultural land and thereby artificially boosted property tax bills for farmers around the state. (See Page 6 for an example of the tax impact of using a capitalization rate that is 1% too low).

Under the Williamson Act, landowners may enter into contracts with participating cities and counties to restrict their lands to agricultural uses. In exchange for entering into these contracts, the owner’s contracted land is valued for property tax purposes according to a statutory formula designed to result in assessed values less than the market value if the land was available for development.

The Williamson Act value is determined by capitalizing the income that the land is capable of producing (from agricultural and/or other compatible uses). This is done using a statutorily prescribed capitalization rate comprised of three components: a yield component, a property tax component, and a risk component.

The first two components are specified by statute and are not

subject to interpretation by the assessor. The yield component is the arithmetic mean, rounded to the nearest 1/4 percent, of the yield rate for long-term United States government bonds as of



September 1 for the five years preceding the assessment year. The tax component is the appropriate tax rate for the area in which the property is located, typically just slightly above 1 percent.

The law specifies that the risk component “shall be a percentage determined on the basis of the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject.” The risk factors to be considered include, but are not limited to the likelihood of flood damage, loss of water, soil erosion, wind damage, declining water table, salinity,

government regulations, labor shortages, decreased ground water quality, price stability, reduction of tariffs and increase in production costs. The higher the risk rate, the lower the property value.

Traditionally, production risks are higher for orchards and vineyards than for annual crops and, hence, that risk should be reflected in the rate. If you have an orchard that is being given the same risk rate as grazing land in your county, you are probably being overtaxed!

Treasury bonds backed by the full faith and credit of the United States government have traditionally been viewed as the safest investment. In return for safety, investors willingly accept a lower rate of return on U. S. treasuries than on other types of investments such as real estate and stocks. Certainly, one would expect to earn a lower rate of return on government bonds than on agricultural lands in light of all the inherent risks involved in farming. Hence, when valuing farm properties by capitalizing the income, one would expect a higher capitalization rate for agricultural land than one comparable to that for a government bond. In fact, this is exactly why the statute calls for the assessors to add a risk component in addition to the bond interest rate component.

Too many tax assessors are using a risk rate component of only 1% instead of 2-3% as recommended by the Board of

AG RISK RATES - DISTRICT TWO

COUNTY	RATE	COMMENTS	ASSESSOR
ALPINE		No CLCA	Dave Peets (530) 694-2283
AMADOR			Raymond Olivarria (209) 223-6351
<i>Grazing, Field and Row Crops</i>	0.5%		
<i>Orchards and Vineyards</i>	2.5%		
BUTTE			Kenneth O. Reimers (530) 538-7721
<i>Global/Standard Rate</i>	.5%		
<i>Range Land</i>	.5%		
<i>Row Crop/Rice Land</i>	1.5%		
<i>Orchards</i>	2.5%		
<i>Flood Plain Orchards</i>	5%		
CALAVERAS			Grant W. Metzger, Jr. (209) 754-6356
<i>Land and Grazing</i>	0.25%		
<i>Orchards and Vineyards</i>	0.5%		
<i>Living Improvements</i>	1%		
EL DORADO			John A. Winner (530) 621-5719
<i>All Properties</i>	1%		
FRESNO			William C. Greenwood (559) 488-3514
<i>Grazing, Row and Field Crops</i>	1%		
<i>Orchards and Vineyards</i>	3%		
INYO		No CLCA	Thomas W. Lanshaw (760) 878-0302
KERN			James W. Maples (661) 868-3485
<i>Dry Grazing</i>	0.5%		
<i>Irrigated Pasture</i>	1%		
<i>Row and Field Crops</i>	1.5%		
<i>All Others</i>	2%		
KINGS			George J. Misner (559) 582-3211
<i>Orchards and Vineyards</i>	2%		
<i>Grazing, Land and Crops</i>	0.5%		
LOS ANGELES – Catalina			Rick Auerbach (213) 974-3101
<i>All Properties</i>	0.25%		
MADERA			Thomas P. Kidwell (559) 675-7710
<i>Land Crops</i>	0.5%	Plus from 1- 9.4% additional depending on risk of flooding	
	1%		
MARIPOSA			Robert Lowrimore (209) 966-2332
<i>All Properties</i>	1%		
MERCED		Unavailable	David A. Cardella (209) 385-7631
MONO		No CLCA	R. Glenn Barnes (760) 932-5204
NEVADA			Dale Flippin (530) 265-1232
<i>Dry Grazing</i>	0.5%		
<i>Irrigated Pasture</i>	0.25%		
<i>Vineyards</i>	2%		

AG RISK RATES - DISTRICT TWO - CONTINUED

COUNTY	RATE	COMMENTS	ASSESSOR
PLACER <i>All Properties</i>	0.5%		Bruce Dear (530) 889-4300
PLUMAS <i>All Properties</i>	1%		Charles W. Leonhardt (530) 283-6380
SACRAMENTO <i>Orchards and Vineyards</i> <i>Land</i>	3% 1%		Kenneth D. Stieger (916) 874-8522
SAN BERNARDINO <i>Grazing, Field and Row Crops</i> <i>Orchards and Vineyards</i>	0.25% 0.35%		Donald E. Williamson (909) 387-6730
SAN JOAQUIN <i>Pastures</i> <i>All Others</i>	1% 1.5%		Gary W. Freeman (209) 468-2630
SAN LUIS OBISPO <i>Cash Rent</i> <i>Share Rent</i> <i>High Risk Tree/Vine Farm</i> <i>Recreation</i> <i>Alfalfa</i>	.25% .5% 2% 5% 1%		Dick Frank (805) 781-5643
SANTA BARBARA <i>Vines and Fruit Trees</i> <i>Dry Farm</i> <i>Irrigated Farm</i> <i>Specified Crops*</i>	.75-2.5% .5% .75% .25-2.5%	*Assessor has 27 risk rates depending upon the type of crop	Kenneth A. Pettit (805) 568-2550
SIERRA <i>All Properties</i>	1%		William G. Copren (530) 289-3283
STANISLAUS <i>Grazing, Almonds, Row and Field Crops</i> <i>Vineyards</i> <i>Peach Orchards</i>	1% 1.5% 2%		Mike DeFerrari (209) 525-6461
TULARE <i>All Properties</i>	1%		Gregory B. Hardcastle (559) 733-6361
TUOLUMNE <i>All Properties</i>	2%		David W. Wynne (209) 533-5535
VENTURA <i>Land, Row Crops, Grazing, Orchard</i> <i>Grapefruit, Walnuts, Apricots</i>	.5% 1.5%	Rates are adjusted for climate and flood hazards	Dan Goodwin, MAI (805) 654-2181
YUBA		No CLCA	David A. Brown (530) 741-6221

For Information on Assessors Not in District Two Please Contact 209-473-6579

Impact of Increasing the Risk Rate from 1% to 2%

Farmer John has 500 acres of land in Lodi suitable for a vineyard. The net annual rental income is \$100,000 before property taxes. Under the Williamson Act, the assessor values the land (excluding improvements) by dividing the net income by the capitalization rate. The capitalization rate equals the yield component + the risk component + the property tax component. For purposes of this example, we will assume a 7% yield (or T-bill rate) and a 1% property tax rate.

Under the **1%** risk rate scenario: the value of the land is \$1,111,111 ($\$100,000 / .09 = \$1,111,111$). The property taxes would be \$11,111.

Now, let's assume a more realistic **2%** risk rate: the value of the land is \$1,000,000 ($\$100,000 / .10 = \$1,000,000$). The property taxes would be \$10,000.

TOTAL TAX REDUCTION: \$1,111 annually.



Second District Counties



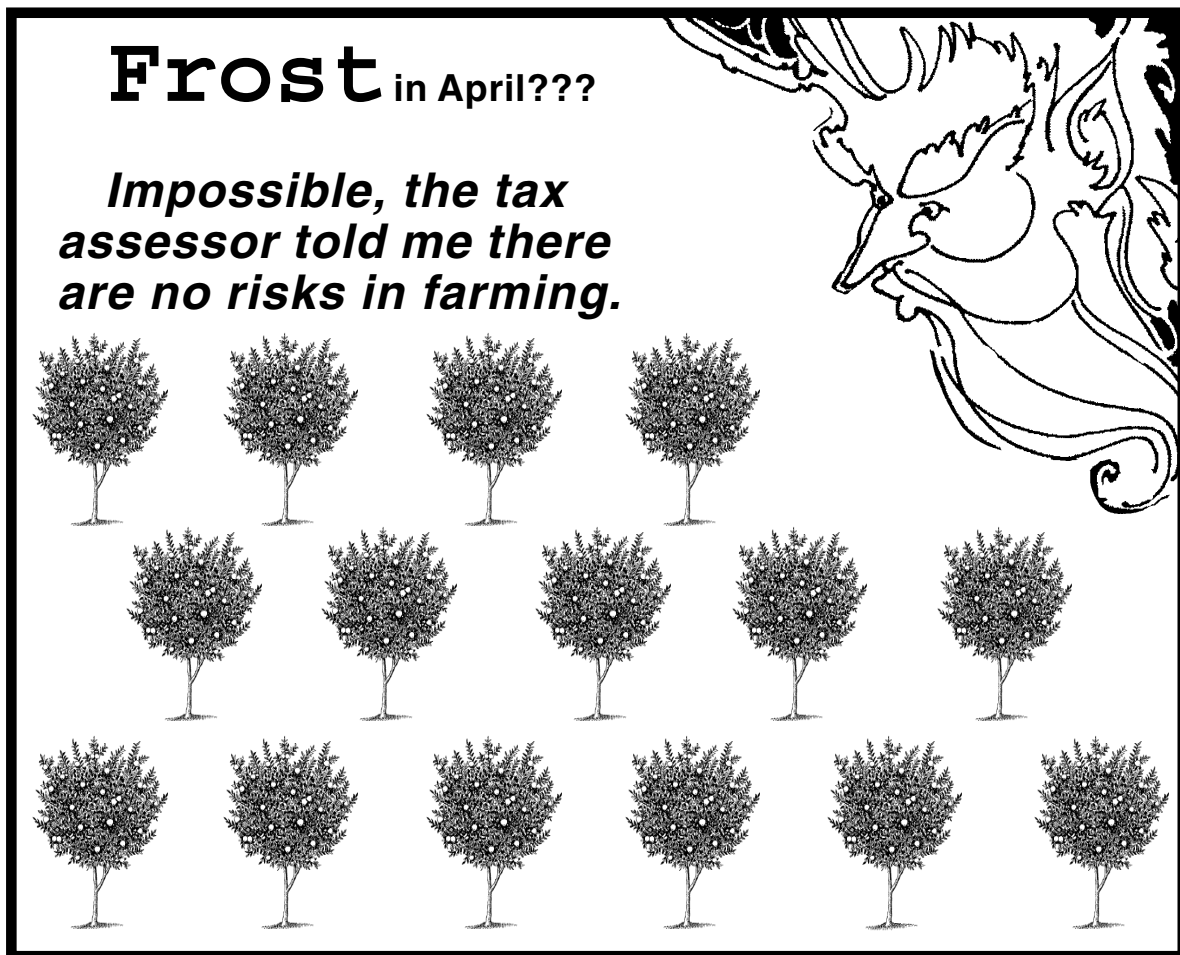
Alpine
Amador
Butte
Calaveras
El Dorado
Fresno
Inyo
Kern
Kings
Los Angeles - Portions of
Madera
Mariposa
Merced
Mono
Nevada
Placer
Plumas
Sacramento
San Bernardino
San Joaquin
San Luis Obispo
Santa Barbara
Sierra
Stanislaus
Tulare
Tuolumne
Ventura
Yuba

ASSESSORS

■ *Continued from Page 4*

Equalization's Assessors' Handbook, audit surveys and good appraisal judgment. The chart on Page 5 lists the different risk rates in the Second Board of Equalization District. If administered properly, risk rates should vary depending on location of the property and the type of crops planted.

The whole purpose of the Williamson Act is to give farmers a tax benefit in return for restricting the use of their land. Entering Williamson Act contracts prevent farmers from developing their land for 10 years. In return, farmers have a right to expect lower assessments and lower taxes. The assessor should not deprive farmers of that right through the use of an arbitrary and artificially low risk rate.



Board of Equalization - Second District

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